

**LEGISLATIVE SERVICES AGENCY
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FISCAL IMPACT STATEMENT

LS 6944

BILL NUMBER: HB 1241

NOTE PREPARED: Jan 27, 2012

BILL AMENDED: Jan 27, 2012

SUBJECT: Rural Entrepreneurship Areas.

FIRST AUTHOR: Rep. Ellspermann

FIRST SPONSOR:

BILL STATUS: CR Adopted - 1st House

FUNDS AFFECTED: X GENERAL
X DEDICATED
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill permits a venture capital investment tax credit that has been certified by the Economic Development Corporation (IEDC) to be applied against tax liability when the qualified investment capital is provided regardless of whether the total amount of tax credits applied by all taxpayers in a particular calendar year exceeds \$12,500,000. It permits a rural county, with the approval of the IEDC to designate the county as a Rural Entrepreneurship Area Development Incentives (READI) area. It provides for the transfer of adjusted gross income taxes annually paid by employees working in an area for a new business and by the new business itself to the rural county for the development of new business opportunities in the rural county. It limits the amount that may be transferred in any year to \$500,000.

Effective Date: Upon passage; January 1, 2012 (retroactive).

Explanation of State Expenditures: (Revised) *Summary:*

(1) *Department of State Revenue, State Board of Accounts, IEDC - READI Area, Treasurer of State:* The bill's requirements are within the agencies' routine administrative functions and should be able to be implemented with no additional appropriations, assuming near customary agency staffing and resource levels.

(2) *IEDC-Venture Capital Investment Tax Credit:* The change in the definition of the amount of credits that can be certified in any particular year will assist the IEDC in the administration of these credits.

Additional Information:

Department of State Revenue (DOR): Before the first business day in October of each year, the DOR has to

compute the income tax incremental revenue for the preceding state fiscal year for each READI area. This is the total amount of state adjusted gross income taxes paid by employees of new businesses employed in the area (except businesses in tax incentive zones) minus the tax credits (EDGE credits) awarded to these businesses. This incremental revenue would be deposited in the state READI fund established by the state treasurer for the county.

State Board of Accounts: The agency has to audit each county READI fund at least once before 2018, and once between 2018 and 2023 to determine if the state transferred the appropriate amount of revenue to the fund, and whether the money in the fund was used in accordance with the agreement with the IEDC.

Treasurer of State: The State Treasurer's office has to establish a state READI fund for each county that is designated as a READI area. Money in the fund does not revert to the state General Fund at the end of the fiscal year.

Indiana Economic Development Corporation (IEDC) - READI Area: The IEDC has to approve each county's application to be designated as a READI area. This designation may be rescinded if the agency decides (after a hearing) that the county has violated the terms and conditions of the county's agreement. The IEDC has to prescribe the application form the county has to use.

Explanation of State Revenues: (Revised) *Department of State Revenue:* The agency has to compute the income tax incremental revenue for the preceding state fiscal year for each READI area. Incremental revenue is defined as the total amount of state adjusted gross income taxes paid by employees of new businesses in the READI area *plus* the amount of adjusted gross income taxes paid by the new businesses themselves sourced to the area minus tax incentives (EDGE credits) awarded to these businesses.

This amount, up to \$500,000, would be deposited in the state READI fund established by the State Treasurer for each county. Based on the 2010 population data, a total of 64 counties would qualify as READI areas. As a result, the maximum total amount in the state READI funds for these counties would be $\$500,000 * 64 = \32 M annually. However, the actual revenue that would be redirected to this fund would equal only the incremental revenue (as defined above) generated by the new employers and employees that are in the READI areas and subject to the number of counties who adopt a READI.

The net revenue impact of diverting the incremental income tax revenue to the READI funds depends on the extent that additional tax collections beside the incremental income tax revenue are generated from economic activity induced by the READI area. However, if the economic activity investment would have occurred in the absence of the READI area, the state incurs a revenue loss equal to the total amount of income tax collections diverted to the READI funds.

Indiana Economic Development Corporation (IEDC) - Venture Capital Investment Tax Credit: Under current law, the total amount of tax credits that may be *allowed* in a particular calendar year for qualified investment capital provided during that calendar year may not exceed \$12.5 M. This bill permits the amount to exceed \$12.5 M as long as the amount *certified* in a particular calendar year does not exceed \$12.5 M.

This bill gives the IEDC flexibility in managing the venture capital program and resolves a potential anomaly between the amount of credits certified (i.e. promised) and the amount awarded in a particular year. Tax payers have two years after the date of certification to make the qualified investment. As a result, even though the amount of credits certified could be well within the statutory limit, it is possible that in any particular year that

the amount of credits to be awarded would exceed the current statutory limits, thereby causing the IEDC to delay awarding credits to some companies. This bill resolves this anomaly.

The amount of Venture Capital Investment credits claimed over the last three years are outlined below.

Tax Year	Individual Filers Claiming Credit	Credits Claimed	Corporate Filers Claiming Credit	Credits Claimed
2007	430	\$3,783,510	0	0
2008	490	\$3,344,229	N/R	25,634
2009	399	\$2,418,395	N/A	N/A
N/A=Data not available. N/R=Five or fewer filers, filer count not reported.				

Explanation of Local Expenditures: (Revised) *County READI Fund:* Each eligible county has to establish a county READI fund, and would have to appropriate funds and resources to manage this fund. The amount needed is indeterminable at this time but it is expected to be within the county's resources.

READI Area: The county fiscal body of each READI area has to submit an economic development plan to the IEDC. The county also has to approve the terms of loans granted to new businesses. The county may have to employ an expert consultant to assist in the development of these plans, and to develop the criteria for approving loans. The county would have to apply sufficient funds and resources to accomplish this initiative.

Explanation of Local Revenues: (Revised) *Summary:* Based on the latest population estimates, 64 Indiana counties would be eligible to be designated as a READI area. The maximum amount of funding for each county would be the incremental revenue generated in the READI up to a maximum of \$500,000 annually.

Additional Information:

READI Area: This bill permits counties with a population of less than 50,000 to apply to the IEDC to be designated as a READI area. As part of the approval process the county has to submit a written plan to the IEDC for supporting entrepreneurship and the establishment of new businesses in the area. Once approved, this designation would be effective until January 1, 2023 unless the IEDC rescinds the designation earlier, or the county fiscal body specifies an earlier date.

There are certain zones within an eligible county that would not be included in the READI area. These include community revitalization enhancement districts, professional sports and convention development areas, certified technology parks and similar areas that under current law permits adjusted gross income taxes imposed on a taxable event in the area to be distributed to an employer located in the area.

The county has to transmit to the Department of State Revenue a complete list of the business employers in the READI area. The list is to be updated annually.

County READI Fund: Each month the county READI fund would receive a distribution from the state. Money deposited in the fund may only be used for a combination of the following: transfer money to a revolving fund; transfer money to a regional or local venture capital fund established under current law; incubator and accelerator development and operation; small business support services; direct incentives and cost reimbursement with the start-up of a new business approved by the county legislative body.

The county fiscal body would have to approve the terms of the loans. Interest payments on loans made from the revolving fund revert back to the fund. A county may not issue bonds using the fund as collateral. Two or more counties may enter into a written agreement to develop new businesses.

Once an area is terminated the remaining funds revert to the state General Fund.

Background Information - Business Incubators and Accelerators: Business incubators are programs designed to nurture the successful development of entrepreneurial companies through an array of business support resources and services, developed and orchestrated by management, and offered both in the incubator and through their network of contacts. The programs are usually set up by a government entity, business alliance, or academic group through a variety of services/training. Services may include but not limited to providing office space usually at a reduced rate, services such a receptionist, conference rooms, computers, office equipment, and entrepreneurial advice and mentoring.

An accelerator is similar in many respects to an incubator but is primarily focused on companies entering or growing in a national or global market. Accelerators are more likely to be financed by venture capitalists looking for an opportunity to finance growth potential through defined action plans. Accelerator management also tends to be much more involved in the operation of their clients than incubator management.

According to the National Business Incubation Association, the state has about 10 incubators including the IU Research & Technology Corp, Purdue Technology Centers, Innovation Connector, and the Hammond Innovation Center.

State Agencies Affected: Department of State Revenue; State Treasurer; Indiana Economic Development Corporation; State Board of Accounts

Local Agencies Affected: Counties with less than 50,000 in population

Information Sources: Stats Indiana website, <http://www.stats.indiana.edu/>; National Business Incubation Association website, <http://www.nbia.org/>

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